

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Cogdill Analyst: Jane Tolman Bill Number: AB 2164
Related Bills: See Legislative History Telephone: 845-6111 Introduced Date: 02-20-2002
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Rural Medical Care Professionals Credit

SUMMARY

This bill would allow a tax credit to medical professionals who work in rural communities.

PURPOSE OF THE BILL

According to the author's office the purpose of this bill is to increase access to medical care in rural communities.

EFFECTIVE/OPERATIVE DATE

This bill would take effect immediately as a tax levy. It would be operative for taxable years beginning on or after January 1, 2002.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits, designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Current state law allows only one tax credit based on the taxpayer's profession, the Teacher Retention Tax Credit. The credit amount varies from \$250 to \$1,500 depending on the credentialed teacher's years of service. The credit cannot exceed 50% of the amount of tax that would be imposed on a teacher's salary, excluding pension or other deferred compensation, after application of the standard deduction or itemized deductions.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

04/08/2002

THIS BILL

This bill would allow a medical professional who practices in a rural area a tax credit against the net tax of 25%.

This bill would define:

- A “qualified medical care professional” as an individual, licensed as a healing arts practitioner, who provides medical services in a rural area.
- A “rural area” as any open country or any place, town, village, or city and associated places that has either a population of less than 10,000; or population of less than 20,000 and is located in a non-metropolitan area, or a standard metropolitan area in this state where the population is less than 20,000 and has rural characteristics.

Any credit that exceeds the taxpayer’s net tax could be carried over until exhausted.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these concerns.

This credit would be allowed against the net tax of qualified medical care professionals. A medical professional may have income from other sources, such as interest income. It is unclear whether the credit would be based only on the tax liability associated with the income from the medical practice. For a married taxpayer, the spouse may be working in another profession, and the couple may have joint income from other sources. It is unclear whether the credit would be based only on the medical professional’s tax liability, or the couple’s total tax liability.

The calculation of this credit may create difficulties because it would be an extremely complex algebraic formula for taxpayers to compute. Also, it is unclear whether this credit would be claimed before or after other credits are applied against the net tax. It would be helpful if the calculation were based on a simpler formula.

There is no criterion for how long or to what extent the medical professional must provide medical service in the rural area to qualify for the credit. The medical professional could qualify for the credit for a full tax year by providing service on the last day of the tax year, even if that service consisted of only being “on-call.” The author may wish to specify a minimum period during which the medical professional must provide medical services in the rural area to ensure that the credit is effective.

The term “medical care professional” is defined using the term “healing arts practitioner.” “Healing arts professional” is defined in the Business and Professional Code with broad definition that includes veterinarians, social workers, registered dispensing opticians, hearing aid dispensers, and pharmacists. In addition, the bill lacks a definition of “medical services.” The lack of definitions for key terms can lead to disputes between the department and taxpayers. The author may wish to narrow the definition for “medical care professional” and provide a definition for “medical services” to ensure the intent is satisfied.

This bill does not contain a sunset date. Sunset dates generally are provided to allow periodic review by the Legislature.

This bill does not limit the number of years for the carryover period. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limitation since experience shows credits typically are exhausted within eight years of being earned.

LEGISLATIVE HISTORY

AB 1689 (Statham, 1993/94) would have allowed a credit of \$5,000 to certain health care practitioners who had taxable income of \$85,000 or less and served in areas considered to be rural communities. This bill failed in Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

A review of *Illinois, Michigan, Massachusetts, Minnesota* and *New York* laws found no comparable tax credits or tax deductions. These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

Since this bill may require the development of a new form or worksheet, additional costs could arise for printing, processing and storage of tax returns. This cost cannot be accurately determined until the other implementation concerns are resolved.

ECONOMIC IMPACT

Revenue Estimate

AB 2164 Rural Medical Care Professionals Credit Fiscal Year Cash Flow * Effective 1/1/02 Assumed Enactment After 6/30/02 (In \$ millions)		
2002-03	2003-04	2004-05
-\$30	-\$40	-\$50

*Due to the need for definitions in this bill, the potential for abuse is quite large, which could result in even greater losses. One possible abuse could involve providing "medical" services in a "rural" area on the last day of the tax year. This is reflected in the significant increases for 2003-04 and 2004-05.

This estimate reflects an order of magnitude given limited data resources. Various assumptions were applied.

The revenue losses that may result from this credit depend on a combination of unknown factors such as the number of qualified medical care professionals that provide or would start to provide medical services in rural areas, the taxable income reported by these individuals in any given year, and the utilization of the credit for each taxable year.

Revenue Discussion

According to information from the 2000 California Statistical Abstract in conjunction with a report from the California Rural Health Policy Council, approximately 13% of California's population resides in a rural area as defined by this proposal.

The following assumptions were applied:

- This proposal could apply to all healing arts practitioners as defined by the Business and Professions Code, even those such as veterinarians, which as noted above may be a broader definition than intended.
- Approximately 3% of all healing arts practitioners in California provide services to rural areas.
- The average adjusted gross income of these individuals (whether filing as single, married filing joint, head of household or married filing separate) is approximately \$90,000 with an average state tax liability of \$4,000 per year.

Approximately 30,000 (3%) of all healing arts practitioners provide service to the rural areas out of the 1,000,000 taxpayers who are healing arts practitioners. The average state tax liability for these taxpayers is \$4,000; this credit will allow 25% reduction in the total tax liability.

POLICY CONSIDERATIONS

This credit would not be limited to medical professionals that work in rural areas in California, the service could be provided to a rural area in another state or country. Therefore, the credit would apply to any qualified medical care professional providing services in a rural area who has a California tax liability.

LEGISLATIVE STAFF CONTACT

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